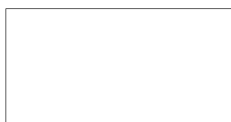


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EXECUTIVE SECRETARIAT
Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
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Remarks:

D/ Executive Secretary
2/15/85
Date

STAT

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Executive Registry
83-0793/1

DATE: 2-14-83 NUMBER: ----- DUE BY: -----SUBJECT: Cabinet Council Minutes

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Darman (<i>For WH Staffing</i>)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Attached for your information are the following Cabinet Council minutes:

February 8, 1983 Cabinet Council on Economic Affairs
 February 9, 1983 Cabinet Council on Economic Affairs
 February 2, 1983 Cabinet Council on Commerce and Trade and
 Trade Policy Committee

RETURN TO:

☐ Craig L. Fuller
 Assistant to the President
 for Cabinet Affairs
 456-2823

☒ Becky Norton Dunlop
 Director, Office of
 Cabinet Affairs
 456-2800

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EXEC
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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

February 8, 1983
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Stockman, Harper, Trent, Hovde, Darman, Porter, McCormack, Leshner, Sprinkel, Kudlow, Poole, Niskanen, Johnson, Macdonald, Dederick, Cicconi, Robinson, Burgess, Byler and Denend, and Ms. Small.

Financial Market Developments and Monetary Policy

The Council reviewed three papers prepared by members of the Working Group on Financial Market Developments: "Monetary Policy Options and Risks" by Beryl W. Sprinkel; "Market Expectations and Monetary Policy in 1983" by William Poole; and "Financial Market Update -- Focus on Monetary Policy" by Lawrence A. Kudlow.

Mr. Sprinkel began the presentation stating that there is agreement on the objective of monetary policy for 1983. It should support the recovery without rekindling inflation expectations. He suggested we cannot be certain that monetary policy will achieve that goal for two reasons. First, there is a lack of precision in the control mechanism, and second, we do not know precisely the relationship between money and real variables in the economy. A major test of the monetary policy adopted will be the behavior of long-term interest rates. Based on that criterion, there is risk in the policy currently being pursued by the Federal Reserve.

Mr. Kudlow discussed recent financial market developments. He noted the decline of interest rates, largely because of lower inflation, the successful budget reconciliation of last fall, a decrease in credit demand, and accommodative monetary policy. Recently there has been an increase in long-term rates, principally because of renewed inflation expectations associated with the projected deficits and uncertainty about the future of monetary policy. This interest rate performance raises the possibility that continuing an expansionary monetary policy may not produce the desired effect on interest rates. This prospect is reinforced by the lack of response to recent Federal Reserve discount rate changes. Additional financial market signs that suggest economic activity is increasing include the beginning of a commodity price recovery, a slightly weaker dollar, and a continued strong stock market. The basic message from financial markets is supportive of a recovery, but the most recent data raise several cautionary flags. The continued surge in money growth poses the greatest problem. Market participants appear not to have accepted the publically offered reasons for current policy -- maturing of all saver certificates, increase in the demand for money, and a velocity decrease.

Cabinet Council on Economic Affairs
 Minutes
 February 8, 1983
 Page Two

Mr. Poole focused on expectations. He noted that the financial futures markets were forecasting an increase in interest rates. These markets are not always correct, but they do offer an unbiased forecast of what market participants expect. A number of recent surveys of experts confirm that interest rates suggest these expectations are not held strongly. Federal Reserve commitment to its published money growth targets appears to be wearing thin. A good deal of the credibility the Federal Reserve earned over the past two years has eroded. We hope that the current gap between short-term and long-term interest rates will be resolved by a decrease in long-term rates in 1983. The only way to achieve this outcome in 1983 is to control the money supply. At the present time the market is not displaying confidence that money will be controlled effectively.

Returning to the objective of monetary policy in 1983, Mr. Sprinkel outlined three options:

1. An immediate effort to remove the bulge in money growth which has occurred since July. Although not desirable, this option is included because in the past abrupt and prolonged periods of monetary restraint have followed earlier episodes of rapid money growth. A prolonged period of slow money growth would abort the recovery.
2. Attempt to hold down short-term interest rates by allowing bank reserves, and thus money growth, to continue uncontrolled temporarily. This approach has characterized monetary policy during the early stages of most recoveries. The problem is that as credit demands strengthen, they must be accommodated through ever increasing growth in the money supply. Soon inflationary expectations begin to bid up interest rates, sewing the seeds of the next recession.
3. Prompt actions by the Federal Reserve to restrain the growth of bank reserves so that money growth will be curtailed and brought within the target ranges. Coupled with an announcement of money growth targets for 1983, this approach is likely to cause an immediate temporary increase in short-term rates but would insulate long-term rates and most importantly prevent the rise of inflationary expectations from ending the economic expansion prematurely.

Time having expired, the Chairman Pro Tempore indicated the Council would continue the discussion of financial market developments at its February 9 meeting.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

February 9, 1983

11:00 a.m.

Roosevelt Room

Attendees: Messrs. Regan, Pierce, Harper, Fiske, Porter, Sprinkel, Baxter, Poole, Kudlow, Niskanen, Speakes, Donnelly, Chapoton, Johnson, Skancke, Roper, Burgess, Byler, and Denend, and Ms. Gall.

1. Financial Market Developments and Monetary Policy

The Council continued its discussion of financial market developments and monetary policy begun at the last Council meeting.

Mr. Poole explained the international implications of U.S. domestic and monetary policy. He noted that if the money supply grew at an accelerated rate over the next several months, the immediate effects would be to ease the financial problems of the LDCs. Economic activity would increase, commodity prices would recover, exports would increase as world aggregate demand increased, and, as the dollar declined, dollar denominated imports would decrease in price. The problem with this scenario is that rapid monetary growth would renew inflationary expectations, leading to increased interest rates and the familiar boom-bust cycles of recent years.

Mr. Poole added that even a moderate reflation to stimulate economic activity could have a negative overall impact. If inflation rose slightly from current levels, market participants would likely expect still higher inflation based on recent experience. The result would be little improvement in the real economic variables affecting LDCs but higher inflation. However, holding the line on monetary growth now offers the prospect of continued long-term progress on inflation and building confidence which will lead to lower interest rates and a sustained recovery.

The Council discussed the continued use of M1 as a monetary policy target. Although recent structural changes in the financial markets have been offered to explain the apparent departure from targeting M1, closer examination suggests that only 15 percent of the increase in M1 in the last few months can be attributed to these changes. It appears that M1 remains a reliable indicator of Federal Reserve policy. The rapid expansion in the money supply is confirmed by similar growth in the monetary base and reserves revealed in the

Cabinet Council on Economic Affairs
Minutes
February 9, 1983
Page Two

Federal Reserve balance sheet. New estimations of several money demand specifications support the conclusion that once again suggestions that the demand for money has shifted are overstated. The Council supported a working group recommendation that the growth rate of money be reduced gradually over the next three quarters to the 5 to 6 percent range. This approach would allow the recovery to continue, prompt further decreases in long-term interest rates, and offer sufficient stimulus to revive the industrial sector of the economy. The price would likely be a temporary rise in short-term interest rates.

The Chairman Pro Tempore directed the Executive Secretary to schedule this agenda item again in several weeks after the decisions of the most recent Federal Open Market Committee Meeting are known.

2. Report of the National Productivity Advisory Committee

The Council reviewed a memorandum from the National Productivity Advisory Committee (NPAC) on cooperative research and development.

Mr. Porter noted that the recommendations presented at this meeting are part of the continuing series of recommendations developed by the National Productivity Advisory Committee. Perceptions in the business community are that cooperative research and development ventures hold promise in helping U.S. companies compete effectively with foreign companies, particularly Japanese firms. Others view the situation differently -- that U.S. companies are reluctant to share their most competitive research and development and that their concern about the government's view of what constitutes an antitrust violation in the context of cooperative research and development is largely an excuse for not engaging in such ventures. The NPAC has recommended that the government meet with representatives from the business community to discuss ways of clarifying the antitrust rules on cooperative research and development.

The Council discussed the NPAC recommendation. Mr. Baxter noted that it would be very difficult for the government to provide guidelines covering all possible circumstances surrounding cooperative research and development projects. However, the Justice Department does provide a business review procedure where the Department will review a proposed venture and render an opinion on whether or not it holds the

Cabinet Council on Economic Affairs
Minutes
February 9, 1983
Page Three

potential for running into difficulty with the antitrust laws. He was aware of no case where after receiving a positive review by the Justice Department a venture was subsequently assessed penalties or successfully sued by third parties.

The Council discussed the importance of building business confidence that government interpretations of acceptable cooperative research and development ventures would remain constant over time. The Council concluded that since these are planned business activities, the best insurance is for projects of this type to be reviewed by the Justice Department at an early stage.

MINUTES OF JOINT MEETING
CABINET COUNCIL ON COMMERCE AND TRADE AND
TRADE POLICY COMMITTEE
Meeting #53, February 2, 1983
3:00 p.m., Room 194

Attendees: Messrs. Baldrige, Brock, Block, Macdonald, Archibald, Trent, Wright, McNamar, Niskanen, Wallis, Fiske, Hesse, Rose, Carliner, Driggs, Olmer, West, Harper, Gunn, McMinn, Pratt, Murphy, Whitfield, Feketekuty, Montgomery, Garfinkel, DeKieffer, Byler, and Ms. Risque, and Ms. Small

Japan Trade Issues

Ambassador Brock led a discussion of U.S. trade policy objectives vis-a-vis Japan. He cited a number of specific trade issues concerning Japan that the Administration would need to address in the coming weeks, including: the section 301 petition against Japan on carbon steel, Japanese auto exports to the U.S., and the Houdaille petition. Ambassador Brock noted that pressure was building in the Congress for dramatic action against Japan.

Houdaille Petition

Ambassador Brock outlined the allegations against Japan set forth in the Houdaille petition. He stated his view that through the use of subsidies, and cartelization of the N.C. machine tool industry, the Japanese had "nullified and impaired" rights granted to the U.S. by Japan under the GATT. This "nullification and impairment" would justify, in his opinion, appropriate action under Section 301 of the Trade Act of 1974. The discussion then focused on the condition of U.S. machine tool industry and what impact quantitative restraints or some other remedy would have on the industry's health. It was agreed that additional analysis of the impact of various remedies would need to be undertaken before a decision could be made on the issue.

Section 301 Against Japan on Steel

Ambassador Brock outlined the Section 301 case brought by the American Iron and Steel Institute against Japan. The gravamen of the case is that the Japanese and the E.C. have divided markets through a GATT illegal cartel. The U.S. steel industry, he indicated, wants assurance that the Japanese will not surge their exports to the U.S. as the American economy recovers. Ambassador Brock stated that he would advise the Japanese of the U.S. industry's concern during his upcoming visit to Tokyo.